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PURCHASING POWER: WHO MAKES THE DECISIONS FOR THE PUBLIC NETWORK?

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Telephony

FOR TODAY'S COMPETITIVE PUBLIC NETWORK MARKET

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PURCHASING POWER: WHO MAKES THE CHOICE?
By Carol Wilson. Since divestiture, the RHCs' monolithic purchasing machine has taken on many different faces. Mergers, company restructuring and competition have all molded these different purchasing approaches. Based on original, in-depth *Telephony* research, this insider's look at LEC purchasing gives a detailed view of who is actually planning today's public network.
Computer-illustrated cover by Peter D. Hynes

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FLYING HIGH AT TELEPORT 24
By Steven Titch. Characterized as everything from a "cream skimmer" to a telco motivator, Teleport has nonetheless made its mark on the the telecommunications world. Now inarguably off the ground and flying smoothly, the competitive access provider is ascending to a new phase of development with its heavy CATV backing

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By Michael Warr. Although a research collaboration between a U.S. and a Japanese manufacturer may be call for celebration. But Bellcore staff cuts may be bad news

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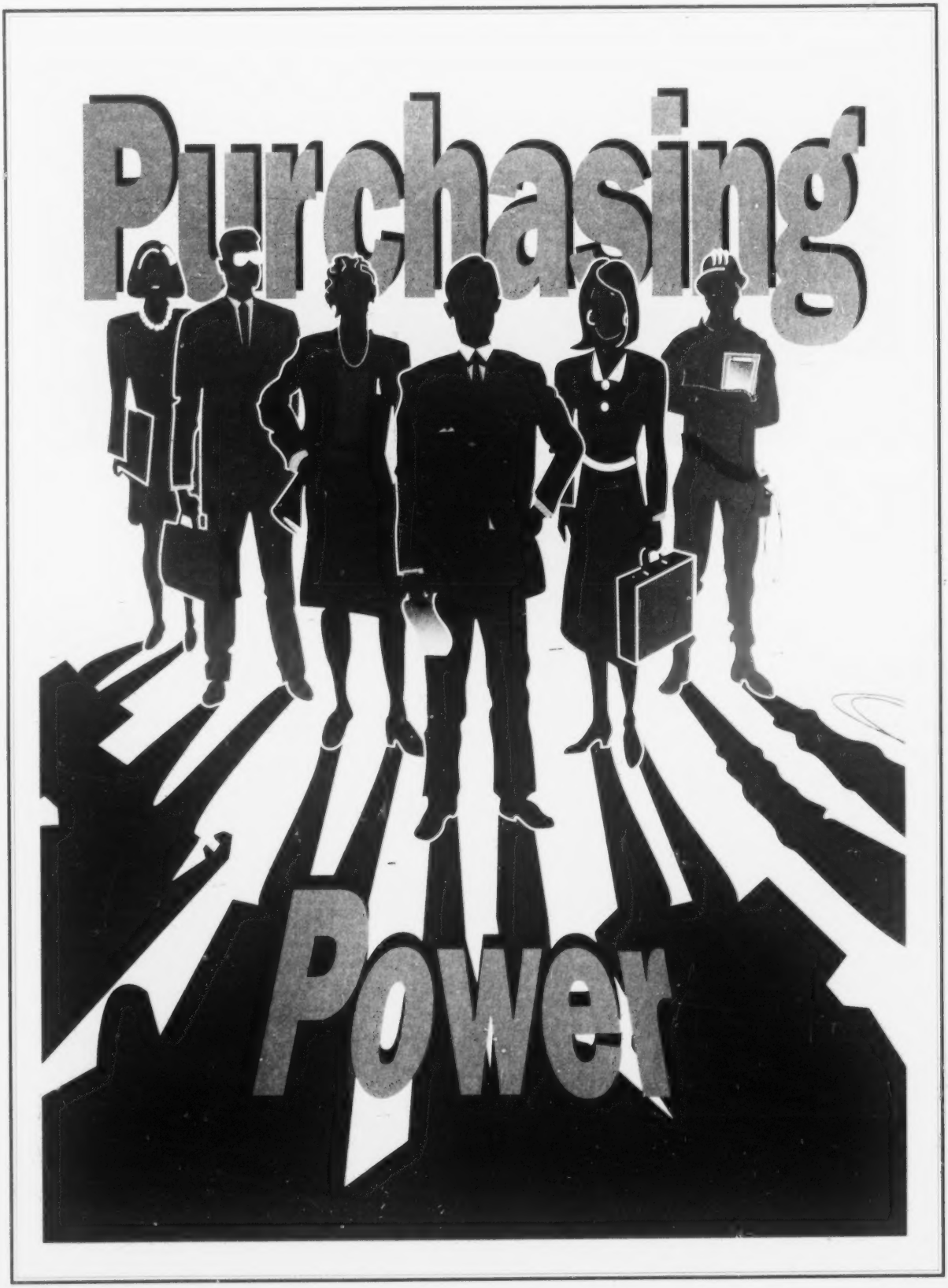

Purchasing
Power

Who makes the choice?

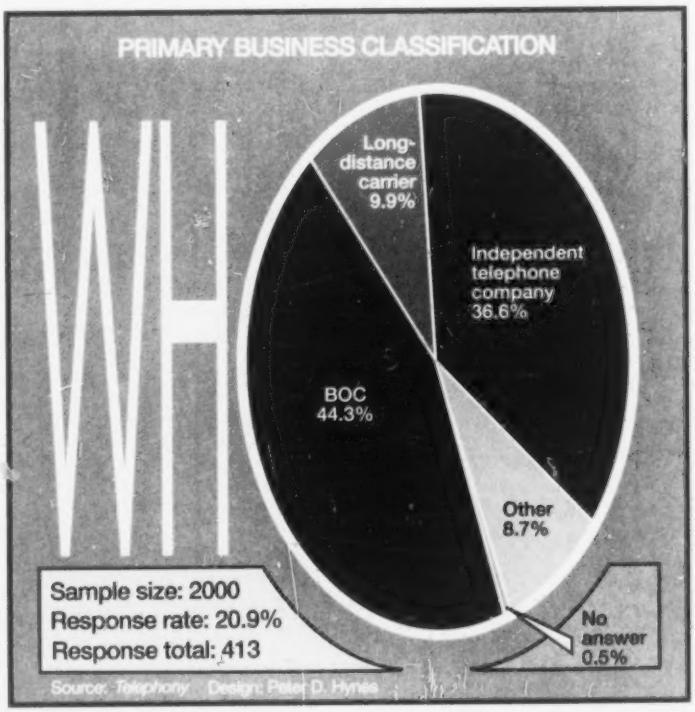
Exclusive Telephony *research shows public network carriers are changing their purchasing process to meet changing demands*

CAROL WILSON, Editor

In their drive to introduce new technology while still controlling costs, public network carriers are driving purchasing authority to the very top and very bottom of their management organizations.

At the same time, many local exchange carriers continue to rely on the recommendations of middle management committees in selecting vendors and determining which products to approve. And a trend is building, initially at Independents, to centralize equipment purchasing.

Those were the major conclusions of a *Telephony* survey conducted in June of purchasing habits of LECs and interexchange carriers. The mail survey was conducted and analyzed for *Telephony* by Intertec Corporate Marketing Research, Overland Park, Kan. (Figure 1).



In less formal responses volunteered by the 413 survey respondents, the study shows a process under tremendous pressure from changing technology, the need to move more quickly to meet growing competition, efforts to gain input from marketing personnel and customers, and the internal personnel restructuring that has been common in the industry over the last few years.

Heavy pressure is also being exerted in these days of low growth and tight budgets, prompting one survey respondent to glumly proclaim, "Everything is coming down to price, price and price."

There are indications, however, that companies are dealing with these growing pressures in different ways, by either centralizing purchasing or empowering employees at lower levels.

Who's On First?

The purchasing survey found that final approval for expenditures is most often concentrated at the top of carrier organizations (Table 1). Of those responding, 42% said executive management, including presidents, vice presidents and CEOs, held final approval authority within their company.

By contrast, however, the second highest concentration of approval authority was at the man-

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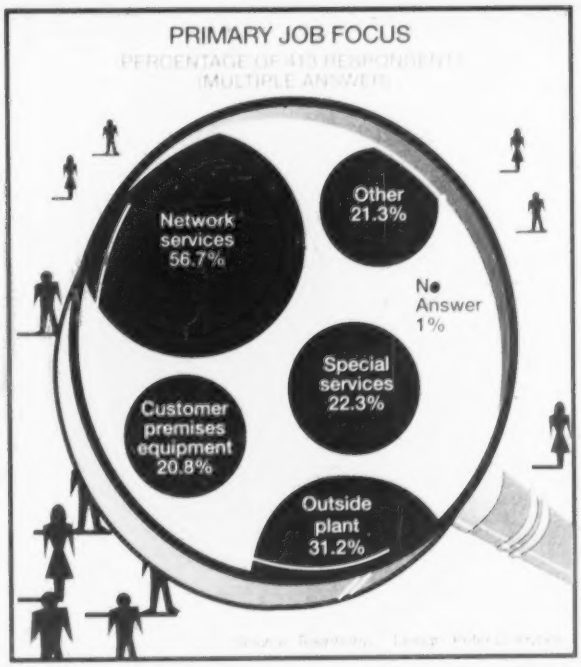


The Choice (continued)

ager and department head level, according to the survey. Of those responding, 32% said these individuals were involved in approving expenditures.

These trends were slightly less pronounced at the Bell operating companies than at Independent telcos and IXCs. Survey respondents from BOCs cited executive management's approval authority 31% of the time, compared with respondents from Independent telcos (47%) or IXCs (68%). Department heads and managers were cited as having expenditure approval by 28% of BOC respondents, compared to 34% of Independent telco respondents and 44% of those from IXCs (Figure 1).

On the other hand, BOCs were slightly more likely to use committees to facilitate the purchasing process than Independents and considerably more likely to use committees to make purchasing decisions than IXCs (Figure 2). Even within the BOC community,

TABLE 1 PURCHASE ROLES ACCORDING TO JOB TITLE

	Approve Expenditures	Brand/Model Specifier	Evaluate Vendors	Influencer/ Recommender
Base = all respondents; multiple answer	413 100.0%	413 100.0%	413 100.0%	413 100.0%
Executive management (President, VP, CEO)	172 41.6%	0 0.0%	2 0.5%	38 9.2%
Support staff (Legal, regulatory, finance)	38 9.2%	6 1.5%	26 6.3%	58 14.0%
Marketing staff (Sales, customer service)	18 4.4%	41 9.9%	34 8.2%	152 36.8%
Division management-technical staff	47 11.4%	66 16.0%	91 22.0%	93 22.5%
Division management-installation/maintenance	34 8.2%	31 7.5%	41 9.9%	133 32.2%
Division management-purchasing	83 20.1%	31 7.5%	65 15.7%	36 8.7%
District management-technical staff	32 7.7%	56 13.6%	76 18.4%	81 19.6%
District management-installation/maintenance	33 8.0%	31 7.5%	33 8.0%	115 27.8%
District management-purchasing	62 15.0%	30 7.3%	50 12.1%	38 9.2%
Manager, department head	132 32.0%	39 9.4%	35 8.5%	110 26.6%
Assistant manager, supervisor	43 10.4%	41 9.9%	49 11.9%	130 31.5%
Technician	3 0.7%	39 9.4%	38 9.2%	131 31.7%
Engineer	28 6.8%	122 29.5%	68 16.5%	125 30.3%
BICSI consultant	3 0.7%	14 3.4%	8 1.9%	27 6.5%

Note: This table summarizes purchase roles for 17 job title classifications. It reflects the opinions of all 413 respondents.
Source: *Telephony*

There are indications . . . that companies are dealing with growing [competitive] pressures . . . by either centralizing purchasing or empowering employees at lower levels.

the traditional practice of making decisions by committee is fading at the BOCs' parent companies (Figure 3).

Where committees were used within BOCs, IXCs and Independents, engineers most frequently participated as committee members (50%), followed by technical staff from middle management—the division (44%) and district (36%) levels—and by department heads and managers (40%).

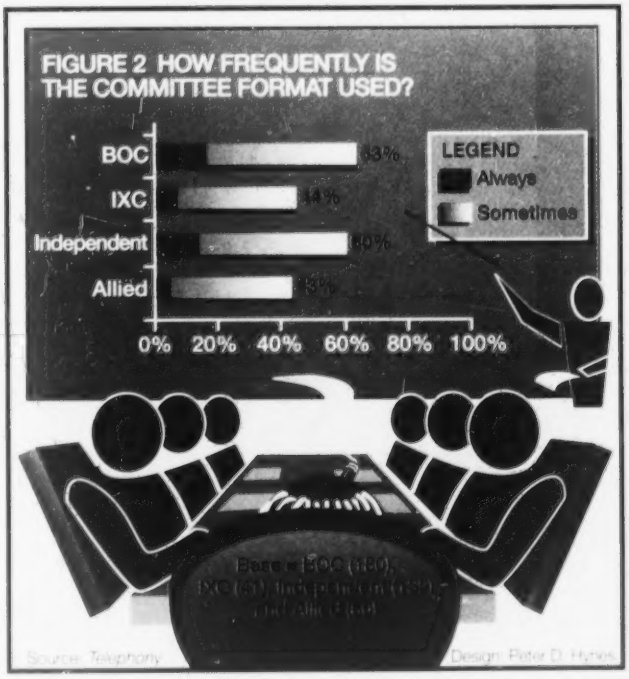
The survey indicates that the role of middle management in the purchasing process overall varies widely (Figure 4) but most often involves vendor evaluation and specification of brands or models.

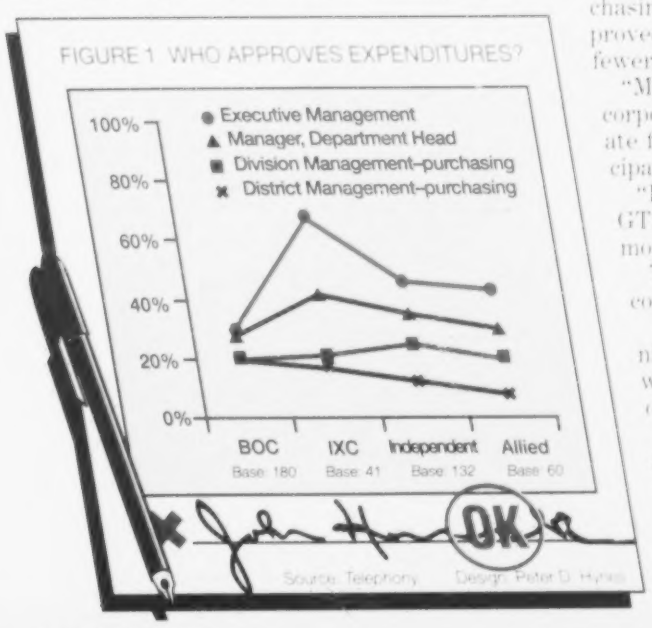
Taking one title as an example—division management-technical staff—the survey shows that at a BOC these individuals are most likely to be involved in influencing or recommending a purchase (22%), evaluating vendors (20%), approving expenditures (14%) and specifying brands or models (13%).

At Independents and IXCs, middle management personnel are more likely to specify brands or models.

Influence on purchasing decisions comes from many different job titles and job levels, according to the survey.

Interestingly, the same department heads that are likely to approve purchases are not likely to evaluate vendors or specify models or brands, setting up a scenario where middle management may determine the products that will make an approved purchase list, while upper and lower management ranks actually approve the expenditures.





Feeling Change

When asked if they felt purchasing roles are changing within the industry, a majority (52%) said yes, while 43% said no. The most frequently cited changes in the LEC community were a move to centralized control of purchasing at higher levels (11% among BOCs, 24% among Independents), and a move to push purchasing authority down to lower levels (18% among BOCs, 17% among Independents).

When asked to briefly describe the changes they see, many of those who cited more centralized purchasing said their corporations were moving to approved lists of vendors and equipment, and allowing fewer deviations from that list.

"More and more the suppliers are specified from corporate, and special permission is required to deviate from that supplier," said one BOC survey participant.

"If it's not a standard product recommended by GTE, there will be no purchase," stated another more bluntly.

The main reason cited for this centralization is cost-cutting.

"Corporate is requiring the operating companies to standardize product lines across the network and utilize mass buying to lower cost," said one Independent telco person.

But other respondents said centralization is also being used to manage rapid technological change in the network and to control quality.

Ironically, technological change was also cited as a reason for distributing purchasing authority at lower levels.

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"As technology advances, more decisions must be made by trained technicians," said one Independent telco respondent. More authority is being delegated to lower levels which are typically more technical and knowledgeable, added another.

"Our company has gone to the field to get first-hand opinions on new equipment trials and evaluations," said a third. "We are listening to the employees in the trenches."

Particularly among BOC's, there was a clearly stated need to make purchasing decisions at levels close to the customer.

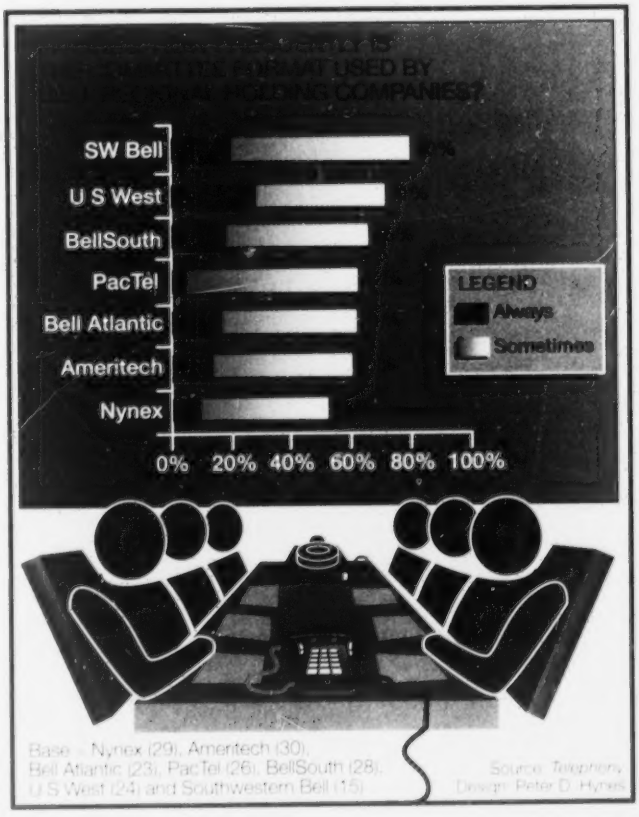
Purchasing is being driven down to the levels closer to the work and to the customer, offered one BOC writer. Customer input was rarely a factor in the past, and it is now, said another.

That need for customer input was frequently cited as one of many pressures dictating shorter time intervals for purchasing decisions.

"What we buy is more customer-driven," one BOC respondent said. "We don't have much time to evaluate the equipment requested by customers. Quicker decisions [are] required often involving promises on the part of vendor/provider. [It's] risky business if the vendor can't deliver!"

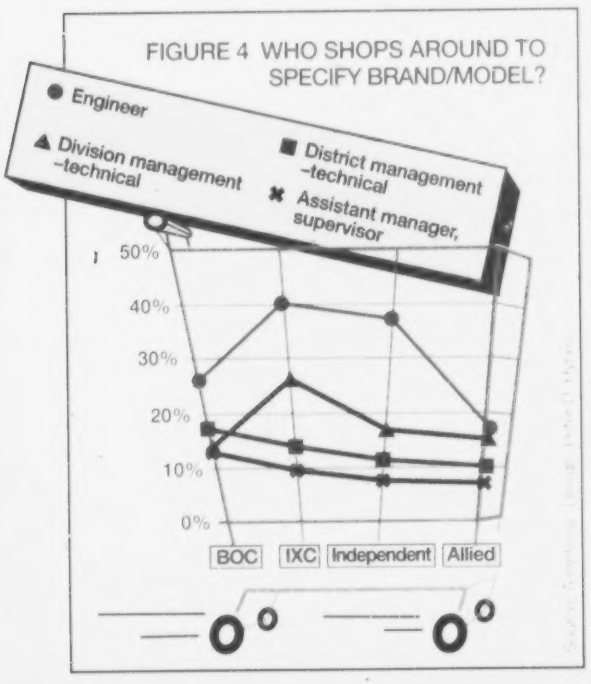
The speed with which the process takes place is clearly changing some longstanding habits. "Products must be purchased and delivered on short intervals to meet customer demands and compete with growing competition," said one BOC respondent. "We can no longer test a product for years before we sell it."

Survey results show that BOC's typically take between three and four months to complete the purchase process—depending, of course on the equipment involved—while Independents and IXC's require less time, typically between one and two months.



Base: Nynex (29), Ameritech (30), Bell Atlantic (23), PacTel (26), BellSouth (28), U S West (24) and Southwestern Bell (15)

Source: Telephony
Design: Peter D. Hynes



The survey reflects many contradictory opinions on the purchasing process. A handful of respondents said there are fewer vendor choices, but many more cited a larger, more confusing array of vendor products. Price has become the overriding factor in making purchasing decisions, according to 12% of BOC respondents and 6% of Independents. A few others from both camps said their companies were making long-term vendor commitments based on quality and future technology migration.

IXC's, which have been dealing in a competitive world for a much longer period of time, don't see their purchase process changing. Less than one-fourth of all respondents cited change as an element. Of that number, half cited movement of decision-making lower in their organization as the primary change.

Based on the comments volunteered on the issue of change, it is clear public network carrier personnel feel a growing pressure from many sides. Customers, marketing personnel, legal staff, cost-conscious management and even over-enthusiastic vendors were all cited as making today's buying environment more difficult.

"There are many more choices," said one BOC person. "It is more difficult to evaluate equipment for service/cost performances, and to determine what is best for any given condition."

Given the growing competition that public network carriers face, there obviously will be more stress ahead for the traditional purchasing process, making more change a certainty. ■